

Message Text

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ACTION ARA-10

INFO OCT-01 AF-04 EA-06 ISO-00 CIAE-00 DODE-00 PM-03 H-01

INR-05 L-02 NSAE-00 NSC-05 PA-01 RSC-01 PRS-01 SP-02

SS-15 USIA-06 AID-05 COME-00 EB-07 FRB-01 TRSE-00

XMB-02 OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-01

CEA-01 INT-05 /095 W

----- 104356

R 182125Z DEC 74

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 1470

INFO AMEMBASSY TOKYO

AMEMBASSY LUSAKA

AMEMBASSY LIMA

AMEMBASSY KINSHASA

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E.O. 11652: N/A

TAGS: EMIN, EFIN, CI

SUBJECT: SAGOSCA SHUTDOWN

1. THOMAS KENNEDY, VP OF CONTINENTAL COPPER AND STEEL, INFORMED EMBASSY DECEMBER 18 THAT DEBT STRUCTURE IN GENERAL AND SPECIFIC REQUIREMENT FOR IMMEDIATE \$2 MILLION PAYMENT TO JAPANESE (DOWA) HAS LEFT CONTINENTAL'S CHILEAN COPPER MINE, SAGASCA, WITHOUT WORKING CAPITAL. HOPED-FOR RELIEF FINANCING FROM CHILEAN COPPER CORP. (CODELCO) SOURCES HAS FALLEN THROUGH, AND SAGASCA NOW MUST SUSPEND OPERATIONS BEGINNING JANUARY 1 FOR PERIOD OF ABOUT THREE MONTHS. PRODUCTION IS NOW AVERAGING 1,400 MT COPPER CONTENT PER MONTH.

2. ACCORDING KENNEDY, SALE OF COPPER PRECIPITATES AND RAW MATERIAL INVENTORIES SHOULD PROVIDE SAGASCA ENOUGH FUNDS TO PAY OFF CREDITORS, GIVE DISMISSED WORKERS LEGALLY REQUIRED SEVERANCE PAY AND HAVE
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ENOUGH LEFT OVER TO RETAIN STAFF OF KEY PEOPLE TO FACILITATE

EVENTUAL RESUMPTION OF OPERATIONS.

3. SAGASCA'S SHORT RANGE PROBLEM IS ADVERSE PRICE RATIO BETWEEN STEEL SCRAP AND SULPHURIC ACID (ITS TWO MAJOR INPUTS) AND COPPER, KENNEDY SAYS. LONGER RANGE DIFFICULTIES ARE LARGE DEBT BURDEN AND OVERSIZE LABOR FORCE WHICH CAME ABOUT BECAUSE ALLENDE GOVERNMENT APPLIED PRESSURE TO HIRE MORE WORKERS.

4. SAGASCA HOPES TO BE ABLE TO CONVERT ITS DEBT INTO EQUITY, WHICH WOULD ELIMINATE BIGGEST PROBLEM. WHEN MINE REOPENS, KENNEDY EXPECTS TO HIRE ABOUT 320 WORKERS COMPARED TO 500 NOW ON PAYROLL. EVEN IF INTERNATIONAL COPPER PRICES REMAIN LOW, CONTINENTAL EXPECTS THAT
DECLINE IN PRICES SCRAP STEEL AND ACID SHOULD MAKE SAGASCA PROFITABLE
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5. COMMENT: SAGASCA SHUTDOWN WILL CAUSE REAL ECONOMIC HARDSHIP IN IQUIQUE WHERE IT IS A MAJOR EMPLOYER. ALTHOUGH CODELCO COULD HAVE PREVENTED CLOSING BUT DIDN'T, CONTINENTAL COULD BE TARGET OF PUBLIC CRITICISM HERE. CODELCO MAY HAVE DECIDED TO LET MINE CLOSE BECAUSE OF CHILE'S NEED TO CUT BACK PRODUCTION IF CIPEC EXPORT LIMITATIONS ARE TO BE ENFORCED.
POPPER

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